

## Filatex India Limited

July 05, 2018

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	688.59 (enhanced from 680.91)	CARE BBB+; Positive [Triple B Plus; Outlook: Positive]	Rating Reaffirmed; Outlook revised to Positive from Stable
Short-term Bank Facilities (Non-Fund Based)	450 (enhanced from 300)	CARE A2 [A Two]	Reaffirmed
Short-term Bank Facilities (Fund Based)	8.23	CARE A2 [A Two]	Assigned
<b>Total Facilities</b>	<b>1,146.82</b> <b>(Rupees One Thousand One Hundred Forty Six crore and Eighty Two lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The ratings of Filatex India Limited (FIL) continue to derive strength from the experienced promoters of FIL and their long track record of operations in the textile industry. The ratings also continue to take comfort from FIL's established customer base and distribution network, improved product mix with value-added products and location advantage enjoyed at the Dahej plant. The ratings also draw strength from the growth in the income and profitability of the company during FY18 (refers to the period April 1 to March 31). The ratings also take cognizance of the completion of the bright polymer project at Dahej, Gujarat during FY18.

These rating strengths, however, continue to remain constrained by relatively high gearing levels, working capital intensive nature of business operations, susceptibility of profitability margins to adverse movement in raw material prices and foreign currency fluctuation risk. The strengths are further constrained by low pricing power due to fragmented and competitive nature of industry.

Going forward, the ability of the company to ramp up the operations from the newly commissioned bright polymer capacity at Dahej and achieve the envisaged revenue and profitability margin while improving its gearing levels shall remain the key rating sensitivities.

### Outlook: Positive

The outlook for the rating is positive on account of expectations of improved revenue and profitability margins given the better product mix with more value added products post the commencement of bright polymer project at Dahej, Gujarat. CARE notes that the company has no further debt funded capital expansion plans in medium term and thus the capital structure and debt coverage indicators are expected to improve in medium term. The outlook may be revised to 'Stable' in case of higher than envisaged debt resulting in increased leverage and lower than expected profitability margins.

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### ***Experienced promoters with long track record of operations***

The company is promoted by the Bhageria Family which has an experience of over four decades in trading and manufacturing of synthetic filament yarn. Mr Madhu Sudhan Bhageria, Chairman and Managing Director have experience

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

of over two decades in the industry. The promoters have been supporting the company with regular fund infusion in the form of equity and unsecured loans.

#### ***Commercial operations of bright polymer project at Dahej location***

The company has successfully completed the bright polymer project in Dahej within the estimated cost and time. The company has added a total of 1,08,000 (Metric Ton Per Annum) MTPA capacity including 190 (Ton Per Day)TPD of Fully Drawn Yarn (FDY), 25 TPD of Partially Oriented Yarn (POY) and 85 TPD of bright chips. The commercial production of these facilities started in March 2018. With the commencement of this facility, the company has improved its product mix and diversified more into value added products including bright POY, bright FDY and bright chips.

#### ***Well-established customer base and distribution network***

The promoter's experience helped the company to establish long-standing relationship with its customers. The company has been dealing with customers for more than five years and get repeat orders from them. The company also established a strong dealer network of 60-70 dealers located at various strategic locations.

#### ***Location advantage***

The company's plants at Dahej and Dadra enjoy the benefit of being located in proximity to major consumption centers of Mumbai and Surat and hence the freight cost is reduced considerably. Dahej is a cargo port situated on the South-west coast of Gujarat, India. There is also Special Economic Zone declared by the Gujarat Government in the Dahej area.

#### ***Growth in income and profitability during FY18***

FIL reported a growth of 29% in total operating income and 15% in PBILDT on a y-o-y basis. The growth was largely on account of increased production and sales of value added products from FDY of 115 TPD and DTY of 200 TPD which commenced operations in FY17. The sales volumes of polyester chips and polyester yarn grew by 7% and 21% respectively during FY18. Although, the PBILDT grew in absolute terms, the margins moderated to 8.62% in FY18 as against 9.33% in FY17 largely on account of competitive prices offered by the company to boost the sales coupled with higher raw material prices.

#### **Key Rating Weaknesses**

##### ***Moderately high overall gearing***

FIL has moderately high overall gearing of 1.73x as on March 31, 2018 which weakened from 1.52x as on March 31, 2017. The moderation was primarily attributable to loans availed for completing the brownfield expansion project at Dahej, Gujarat. The unsecured loans aggregating Rs.66.95 crore as on March 31, 2018 are treated as quasi equity being subordinated to bank loan. Although, the gearing moderated, the interest coverage and total debt to gross cash accruals of FIL improved to 3.80x and 7.54x respectively for FY18 as against 2.48x and 8.25 respectively for FY17.

##### ***Working capital intensive nature of operations***

FIL has working capital intensive nature of business operations. The key raw material Purified Terephthalic Acid (PTA) and Mono-Ethylene Glycol (MEG) are sourced against LC or very low credit period while the sales is made through dealers at a credit period upto 60 days thus necessitating high working capital requirement. Accordingly, aggregate utilization levels of working capital borrowings (both fund and non-fund) remained high at around 80% over the last twelve months period ending March 2018. The current ratio of the company also remained low at 0.99x as on March 31, 2018 due to significant amount of current portion of long term borrowings (CPLTD). The current ratio adjusted for CPLTD stood at 1.21x as on March 31, 2018.

### ***Exposure to volatility in raw material prices and foreign exchange fluctuation risk***

The main raw material of FIL is Purified Terephthalic Acid (PTA), Mono-Ethylene Glycol (MEG), Polyester Bright Chips and Polypropylene Chips. These raw materials are derivatives of crude oil and its price is dependent on movement of crude oil prices. Furthermore, key raw material has to be purchased from bigger players; therefore, bargaining power of the company remains low. Hence, any adverse volatility in the raw material prices may affect the company's margins. FIL is also exposed to foreign exchange fluctuation risk on account of part of its term debt in foreign currency.

### ***Fragmented and competitive industry***

FIL operates in a highly commoditised and fragmented yarn industry marked by large number of organised as well as unorganised players coupled with low entry barriers. Intense competition limits the pricing abilities of the players in the industry. Furthermore, the industry is characterised by players having low bargaining power against large suppliers. Additionally, presence of dominant and integrated players with better bargaining power limits the pricing flexibility of players operating in the segment.

**Analytical approach:** Standalone

### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

[Financial ratios – Non-Financial Sector](#)

### **About the Company**

Filatex India Limited, incorporated in August 1990, is engaged in manufacturing of Polyester, Nylon & Polypropylene Multifilament Yarn. The company was promoted by the Bhageria family having an experience of over four decades into manufacturing and trading of synthetic filament yarn. The Chairman and Managing Director of the company, Mr Madhu Sudhan Bhageria has experience of over two decades in the industry. The company has manufacturing facilities at, Dadra (U. T. of Dadra & Nagar Haveli) and Dahej (Gujarat). The capacity utilization at Dahej plant has been increased to 93.16% in FY18 as against 80.91% in FY17.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	1,560.66	1,944.28
PBILD	145.63	167.69
PAT	40.56	59.79
Overall gearing (times)	1.52	1.73
Interest coverage (times)	2.48	3.80

A: Audited;

### **Status of non-cooperation with previous CRA:**

Not Applicable

### **Any other information:**

Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	March, 2028	488.59	CARE BBB+; Positive
Non-fund-based - ST-BG/LC	-	-	-	450.00	CARE A2
Fund-based - LT-Cash Credit	-	-	-	200.00	CARE BBB+; Positive
Fund-based - ST-Term Loan	-	-	-	8.23	CARE A2

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Non-fund-based-Short Term	ST	300.00	Suspended	-	-	-	1)Suspended (06-Apr-15)
2.	Term Loan-Long Term	LT	191.33	Suspended	-	-	-	1)Suspended (06-Apr-15)
3.	Fund-based-Long Term	LT	140.00	Suspended	-	-	-	1)Suspended (06-Apr-15)
4.	Fund-based - LT-Term Loan	LT	488.59	CARE BBB+; Positive	-	1)CARE BBB+; Stable (03-Jul-17)	1)CARE BBB (05-Jul-16)	-
5.	Non-fund-based - ST-BG/LC	ST	450.00	CARE A2	-	1)CARE A2 (03-Jul-17)	1)CARE A3+ (05-Jul-16)	-
6.	Fund-based - LT-Cash Credit	LT	200.00	CARE BBB+; Positive	-	1)CARE BBB+; Stable (03-Jul-17)	1)CARE BBB (05-Jul-16)	-
7.	Fund-based - ST-Term loan	ST	8.23	CARE A2	-	-	-	-

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